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January 31, 2014

Office of the Comptroller of the Currency
Legislative and Regulatory Activities Division
400 7th Street, SW
Suite 3E-218, Mail Stop 9W-11
Washington, DC 20219

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551
Attn.: Robert deV. Frierson, Secretary

Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429
Attn.: Comments, Robert E. Feldman,
Executive Secretary

Via Federal eRulemaking Portal: www.regulations.gov

OCC (Docket ID OCC-2013-0016); FRB (Docket No. R-1411) and FDIC (RIN 3064-AE04)

Re: Liquidity Coverage Ratio; Liquidity Risk Measurement, Standards, and Monitoring

Ladies and Gentlemen:

Nelnet, Inc. (“Nelnet”) and SLM Corporation (“SLM”) (collectively, “we” or “our”) are pleased to submit this comment letter to the Office of the Comptroller of the Currency, Department of the Treasury (“OCC”), the Board of Governors of the Federal Reserve System (“FRB”) and the Federal Deposit Insurance Corporation (“FDIC”) (collectively, the “Agencies”) on their Notice of Proposed Rulemaking published in the Federal Register on November 29, 2013 (“Proposal”) regarding the implementation of a minimum quantitative liquidity requirement consistent with the liquidity coverage ratio standard established by the Basel Committee on Banking Supervision that would apply to “large, internationally active banking organizations, nonbank financial companies designated by the Financial Stability Oversight Council for Board supervision that do not have substantial insurance activities (“covered nonbank companies”), and their consolidated subsidiary depository institutions with total assets greater than \$10 billion.”¹

We have carefully considered the Proposal and the surrounding analytical framework and fully support the goals of promoting strong liquidity risk management and improving the banking sector’s

¹ Proposal, 78 Fed. Reg. 71,817(Nov. 29, 2013).

ability to absorb shocks arising from financial and economic stress. We believe that implementing a strong and internationally harmonized quantitative liquidity standard based upon a liquidity coverage ratio requiring a minimum amount of high quality liquid assets will increase the likelihood of a covered company being able to survive these stresses.

Under the Proposal, covered companies generally would be required to maintain a liquidity coverage ratio equal to or greater than 100%.² The proposed liquidity coverage ratio would require a covered company to have high quality liquid assets (“HQLAs”) meeting the criteria in the Proposal equal to or in excess of its total net cash outflows over a prospective 30-day period.³

In general, HQLAs would be divided into three proposed levels, Level 1, Level 2A and Level 2B.⁴

Level 1 HQLAs would include:

- Reserve Bank balances;
- Foreign withdrawable reserves;
- An obligation issued by, or unconditionally guaranteed by, the U.S. Department of the Treasury or a U.S. government agency the obligations of which are guaranteed by the full faith and credit of the United States government, provided (in the case of an agency) that the obligation is liquid and readily-marketable;
- An obligation issued by, or unconditionally guaranteed by, a sovereign entity, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Community, or a multilateral development bank, that is: (i) assigned a 0% risk weight; (ii) liquid and readily-marketable; (iii) issued by an entity whose obligations have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions; and (iv) not an obligation of a regulated financial company, investment company, non-regulated fund, pension fund, investment adviser, or identified company, and not an obligation of a consolidated subsidiary of any of the foregoing (collectively, “financial sector entities”); and
- An obligation issued by, or unconditionally guaranteed by, a sovereign entity that is not assigned a 0% risk weight, where (i) the sovereign entity issues the obligation in its own currency, (ii) the security is liquid and readily-marketable, and (iii) the organization holds the security in order to meet its net cash outflows in the jurisdiction of the sovereign entity.

To qualify as “liquid and readily-marketable,” an obligation must be traded in an active secondary market with: (1) more than two committed market makers; (2) a large number of non-market maker participants on both the buying and selling sides of transactions; (3) timely and observable market prices; and (4) a high trading volume.

Level 2A HQLAs would include:

- An obligation issued by, or guaranteed by, a U.S. government-sponsored enterprise, that is investment grade and senior to preferred stock;
- An obligation that is issued by, or guaranteed by, a sovereign entity or multilateral development bank that is: (i) not included in Level 1 HQLAs; (ii) assigned no higher than a 20% risk weight; (iii) issued by an entity whose obligations have a proven record as a reliable

² Proposal at 71,822.

³ Id.

⁴ Proposal, at 71,826-71,827.

source of liquidity in repurchase or sales markets during stressed market, and (iv) not an obligation of a financial sector entity.

All Level 2A HQLAs must qualify as liquid and readily-marketable.

Finally, Level 2B HQLAs would include:

- A corporate debt security that is: (i) investment grade; (ii) issued by an entity whose obligations have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions; and (iii) not an obligation of a financial sector entity; and
- A common equity share that: (i) is included in the Standard & Poor's 500 Index or a comparable index of liquid equity securities; (ii) if the share is issued in a currency other than U.S. dollars, the organization must hold the share in order to cover its net cash outflows in that currency's jurisdiction; (iii) is issued by an entity whose publicly traded common equity shares have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions; (iv) is not issued by a financial sector entity; (v) if held by a depository institution, is not acquired in satisfaction of a debt previously contracted; and (vi) if held by a consolidated subsidiary of a depository institution, the depository institution can include the publicly traded common equity share only if the share is held to cover net cash outflows of the consolidated subsidiary.

All Level 2B HQLAs must be "publicly traded" (i.e., listed on a national securities exchange registered with the Securities and Exchange Commission or a foreign securities exchange regulated by a national regulatory authority) as well as liquid and readily-marketable.

The Agencies have asked for comment on what other assets, if any, should they include in Level 2A liquid assets and what are the characteristics of those assets that justify their inclusion in level 2A liquid assets.⁵

As detailed herein, we submit that the final rule should include investment grade senior unsubordinated asset backed securities ("FFELP ABS") collateralized or otherwise backed solely by loans ("FFELP Loans") originated under the Federal Family Education Loan Program ("FFELP")⁶ as Level 2A High Quality Liquid Assets inasmuch as FFELP ABS exhibit (1) limited price volatility, (2) trading volumes that are generally commensurate with or better than transaction volumes on the U.S. government-sponsored enterprise ("GSE") debt and investment grade, nonfinancial corporate bonds that are proposed to be eligible HQLA and (3) deep and stable secured funding markets. This high-quality, low-risk profile shown by FFELP ABS is a product of the fact that the underlying FFELP Loans are guaranteed by the federal government generally between 97% and 100% of the student loan's principal and accrued interest depending on the date the loan was disbursed. This revision, we believe would not only be entirely consistent with the criteria identified by the Agencies as being characteristic of high-quality liquid assets but would also serve to improve the liquidity risk profiles of covered companies by further diversifying the available types of HQLA to include an asset class that has a diverse investor base and one to which the financial sector has historically been exposed.

⁵ Proposal, at 71,827, Question No 12.

⁶ Federal agencies have determined that loans originated under the FFELP are directly guaranteed by the U.S. government and are paid from federal funds. See Federal Housing Finance Agency Regulatory Interpretation 2009-RI-01, dated June 4, 2009, which cites the use of federal funds to pay for default claims and concludes that "the federal guarantee for defaulted guaranteed student loans originated under FFELP does run to the direct benefit of the holder of those loans." See the Appendix for a general description of the FFELP.

Background on Nelnet

Nelnet, Inc., an education services company, provides processing services, and education-related products and services in the areas of asset management and finance, loan servicing, payment processing, and enrollment services in the United States. The company operates in four segments: Student Loan and Guaranty Servicing, Tuition Payment Processing and Campus Commerce, Enrollment Services, and Asset Generation and Management. The Student Loan and Guaranty Servicing segment engages in loan origination activities, loan conversion activities, application processing, borrower updates, payment processing, due diligence procedures, funds management reconciliations, and claim processing for the company's student loan portfolio and the portfolios of third parties. This segment also provides software and data center, borrower and loan updates, default aversion tracking, claim processing, and post-default collection services for guarantee agencies; student loan servicing software; and information technology products and services in areas of educational loan software, technical consulting, enterprise content management, outsourcing, and back office support. The Tuition Payment Processing and Campus Commerce segment offers products and services to manage the payment of education costs at various levels; and education-focused technologies, services, and support solutions to schools for collection and processing of commerce data. The Enrollment Services segment provides inquiry, agency, software licensing, and digital marketing services, as well as content solutions. The Asset Generation and Management segment engages in the acquisition, management, and ownership of the company's student loan assets. The company serves students and families; colleges and universities; private, faith-based, and other K-12 schools; lenders, servicers, and state agencies in education finance; and government entities. Nelnet, Inc. was founded in 1977 and is headquartered in Lincoln, Nebraska.

Background on SLM

SLM is the nation's leading saving, planning and paying for education company. SLM was formed in 1972 as the Student Loan Marketing Association, a federally chartered government sponsored enterprise, with the goal of furthering access to higher education by providing liquidity to the student loan marketplace. On December 29, 2004, SLM completed the privatization process that began in 1997 and resulted in the wind-down of the Student Loan Marketing Association. SLM's primary business is to originate, service and collect loans made to students and/or their parents to finance the cost of their education. Until June 30, 2010, SLM provided funding, delivery and servicing support for education loans in the United States through its participation in the FFELP and origination of private education loans which are not federally guaranteed. The FFELP was discontinued effective July 1, 2010 pursuant to the Health Care and Education Reconciliation Act of 2010. Although SLM no longer originates loans under the FFELP, as of September 30, 2013, it owns directly or indirectly approximately \$106 billion of FFELP loans which are expected to pay down over the next 25 years. SLM is a servicer of student loans for the United States Department of Education ("Department of Education") and originates and services private education loans. In addition, SLM provides a number of other FFELP related services including guarantee servicing, default aversion counseling and defaulted loan collections. SLM is headquartered in Newark, Delaware.

Nelnet and SLM roles in FFELP ABS marketplace

Nelnet and SLM have been the leading issuers and innovators in the FFELP ABS marketplace since its inception in August 1992.⁷ Collectively, they have issued in excess of \$256 billion in FFELP ABS in 154 separate transactions. In 2012 and 2013, issuances by Nelnet and SLM, together, constituted

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The beginning of the student-loan ABS market usually is dated to the November 1992 adoption of Rule 3(a)-7 of the Investment Company Act of 1940. Rule 3(a)-7 exempted issuers of ABS backed by a broad class of consumer assets, including federally sponsored student loans, from investment company reporting requirements.

approximately 55% of the total amount of FFELP ABS issuances. In addition, in 2012 and 2103, SLM was the 3rd and 3rd and Nelnet was the 14th and 18th largest issuers, respectively, in the non-GSE ABS marketplace.⁸

1. *The Final Rule Should Include ABS backed by FFELP Loans as Level 2A High Quality Liquid Assets because they meet the criteria identified by the Agencies as being characteristic of these assets.*

As stated in the Proposal, the liquid asset criteria established by the Agencies are intended “to ensure that a covered company’s HQLA amount includes only assets with a high potential to generate liquidity through sale or secured borrowing during a stress scenario.”⁹ To that end, the Agencies have identified several criteria for identifying what type of assets qualifies as high-quality liquid assets. This means that securities classified as HQLA should be readily convertible into cash with little or no realized price depreciation during periods of diminished liquidity. In satisfaction of this objective, the Agencies considered certain liquidity characteristics when establishing their proposed criteria for HQLA qualification. They considered three categories of liquidity characteristics (a) risk profile; (b) market-based characteristic; and (c) funding.¹⁰ Specifically, per the proposed rule, assets that should be classified as HQLA “exhibit low risk and limited price volatility, are traded in high-volume, deep markets with transparent pricing, and are eligible to be pledged at a central bank.”¹¹ We believe that the final rule should include asset backed securities collateralized or otherwise backed solely by investment grade senior unsubordinated FFELP ABS as Level 2A HQLA because they display each of these characteristics as described below.

(a) PRICE VOLATILITY

In order to classify certain assets as Level 2A or 2B liquid assets, the Agencies have proposed to institute quantitative market price and secured funding haircut volatility thresholds. Specifically, in order to qualify as a HQLA, the Agencies would require that these assets be issued by entities “whose obligations have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions.”¹² In order to sufficiently demonstrate the foregoing, the relevant Level 2A liquid assets would need to show that, during a 30 calendar-day period of significant stress, the market price of the asset, or equivalent securities of the same issuer, did not decline by more than 10%. This threshold is increased to 20% for Level 2B Liquid Assets that are publicly traded corporate debt securities and to 40% for publicly traded common equity shares.

Secondary trading in FFELP ABS has always been quite robust, being an asset class with a specific allocation in most large asset managers’ portfolios. FFELP ABS also has demonstrated a very high degree of relative price stability during periods of financial market turmoil. For example, Table 1 shows that, during the period from January 2007 to December 2011, the secondary market price for SLM issued AAA-rated FFELP ABS with tenors of between 1 year and 7 years ranged from a high of 100% to a low of approximately 76%. During that same period, the secondary market price of SLM issued AAA-rated FFELP ABS with tenors of between 1 year and 7 years never declined by more than 10% during any 30 calendar-day

⁸ Source, Barclays Research League Tables.

⁹ Proposal at 71,823.

¹⁰ Id.

¹¹ Id.

¹² § __.20 High-Quality Liquid Asset Criteria of the Proposal.

period.¹³ Both Nelnet and SLM believe that this price range and relative stability is indicative of the market for investment grade senior unsubordinated FFELP ABS as a whole. Considering relative price stability as indicative of liquidity, it would be consistent to also include investment grade senior unsubordinated FFELP ABS as eligible for classification as High Quality Liquid Assets.

(b) MARKET-BASED CHARACTERISTICS

We agree with the Agencies' stipulation that HQLA should be traded in high volumes. Table 3 below compares issuance volumes across asset classes for the period from 2006 to 2013. FFELP ABS is an extremely liquid asset class with the ability to continue to be funded even during the peak of the financial crisis. Indicative of the relative liquidity in the FFELP ABS market, Table 3 shows total FFELP ABS issuances compared to total ABS issuances for the period from 2006 to 2013. One can see that, during the height of the financial crisis, FFELP ABS issuers, led by Nelnet and SLM, continued to be able to access the market when many other assets classes were not able to do so. In fact, during the highest point of financial stress in 2008, FFELP ABS comprised over 12% of the total ABS marketplace as compared to less than 1% in pre-crisis. In 2008 alone, SLM was the largest issuer of FFELP ABS and was more than 3 times greater than the largest non- FFELP ABS issuer.

We assert that this liquidity of the FFELP ABS market depicts the right-way risk that, as the Agencies have discussed, makes an asset appropriate for designation as HQLA.

(c) SECURED FUNDING

As described above, in order to classify certain assets as Level 2A or 2B liquid assets, the Agencies have proposed instituting quantitative market price and secured funding haircut volatility thresholds. Specifically, in order to qualify for HQLA, the Agencies would require that these assets be issued by entities "whose obligations have a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions."¹⁴ As stated above, demonstration of the forgoing for relevant Level 2A liquid assets would require that, during a 30 calendar-day period of significant stress, the haircut charged on secured lending and funding transactions collateralized by the asset, or equivalent securities of the same issuer, did not increase by more than 10 percentage points. The threshold is increased to 20 percentage points for Level 2B Liquid Assets that are publicly traded corporate debt securities and to 40 percentage points for publicly traded common equity shares.

Similar to Treasuries, Agencies, GSE debt and corporate bonds, there are deep, diverse and well-developed secured funding markets for FFELP ABS and FFELP loans. During 2008 and 2009, the industry experienced only minor changes in haircuts for secured funding of FFELP loans and FFELP ABS. As an example, in addition to its primary issuances, during the 2008 to 2009 period of financial crisis, SLM had available to it a \$26 billion asset-backed commercial paper program from several major investment banks. From February 2008 through December 2009, the mark-to market advance rates on that program went from approximately 99% in February 2008 to approximately 97% in December 2009. While advance rates on this facility experienced stress with lows reached in October and November of 2008, never did the advance rates decline by more than 10% in any 30-day period.

¹³ See Table 2 which shows the rolling 30-day price volatility of SLM issued AAA-rated FFELP ABS with tenors of between 1 year and 7 years for the period from January 2007 through December 2011.

¹⁴ § __.20 High-Quality Liquid Asset Criteria of the Proposal.

Since the Agencies specifically require that HQLA be eligible to be pledged at a central bank, it is important to note that the U.S. Federal Reserve (the “FED”) accepts FFELP ABS at between a 2% and 5% haircut¹⁵, depending on maturity. By comparison, the FED accepts U.S. AAA corporate bonds at a 3% to 6% haircut and all other investment grade corporate bonds at a 5% to 8% haircut. By accepting them at the same haircut as U.S. Agency and GSE issues and at better haircuts than U.S. corporate bonds, depending on the maturity, the FED already acknowledges the high credit, diversification and liquidity value of FFELP ABS.

Given the size, depth and stability of these financing options, investment grade senior unsubordinated FFELP ABS clearly meet the Agencies’ requirement of “a proven record as a reliable source of liquidity in repurchase or sales markets during stressed market conditions” and therefore should be eligible for classification as HQLA.

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¹⁵

For AAA-rated FFELP ABS with tenors of between 1 year and 10 years.

Conclusion

We respectfully request that the Agencies amend the proposed rule by permitting investment grade senior unsubordinated FFELP ABS with tenors of between 1 year and 10 years to be eligible as Level 2A High Quality Liquid Assets.

Please feel free to contact either of us if you have any questions.

Sincerely,

NELNET, INC.

SLM CORPORATION

By: 

Name: Jeffrey R. Noordhoek
Title: Chief Executive Officer

By: _____

Name: Joseph A. DePaulo
Title: Executive Vice President
– Banking and Finance

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Conclusion

We respectfully request that the Agencies amend the proposed rule by permitting investment grade senior unsubordinated FFELP ABS with tenors of between 1 year and 10 years to be eligible as Level 2A High Quality Liquid Assets.

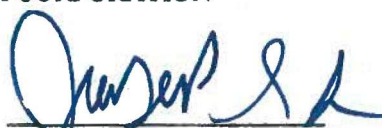
Please feel free to contact either of us if you have any questions.

Sincerely,

NELNET, INC.

By: _____
Name: _____
Title: _____

SLM CORPORATION

By: 
Name: Joseph A. DePaulo
Title: Executive Vice President
– Banking and Finance

Appendix

General Description of the FFELP

The Higher Education Act of 1965, as amended, (“HEA”) regulates every aspect of the federally guaranteed student loan program, including underwriting, communications with borrowers, loan originations and default aversion requirements. The guarantee by the federal government¹⁶ for FFELP Loans generally covers between 97% and 100% of the student loan’s principal and accrued interest depending on the date the loan was disbursed. New originations for FFELP loans were discontinued effective July 1, 2010, pursuant to the Health Care and Education Reconciliation Act of 2010 (“HCERA”). HCERA did not affect the guarantee percentages on existing loans.

The HEA provided for the origination of FFELP loans, pursuant to mandated standards, to students enrolled at eligible institutions (or to the parents of dependent students) to finance their education. In addition to requiring that the student satisfy the financial need thresholds of the program, the statute provided that the student must be a U.S. citizen, national or permanent resident; be accepted or enrolled at a participating institution (while maintaining satisfactory academic progress); and carry at least one-half of a normal full-time academic workload. Additionally, federally insured consolidation loans have been originated for FFELP borrowers following the completion of their education in order to provide such borrowers with additional repayment options and ease their administration.

¹⁶ Federal agencies have determined that loans originated under the FFELP are directly guaranteed by the U.S. government and are paid from federal funds. *See* Federal Housing Finance Agency Regulatory Interpretation 2009-RI-01, dated June 4, 2009, which cites the use of federal funds to pay for default claims and concludes that “the federal guarantee for defaulted guaranteed student loans originated under the FFELP does run to the direct benefit of the holder of those loans.”

TABLE 1

Historical SLM FFELP ABS Pricing

SLM FFELP ABS PX(\$) 2007-2011

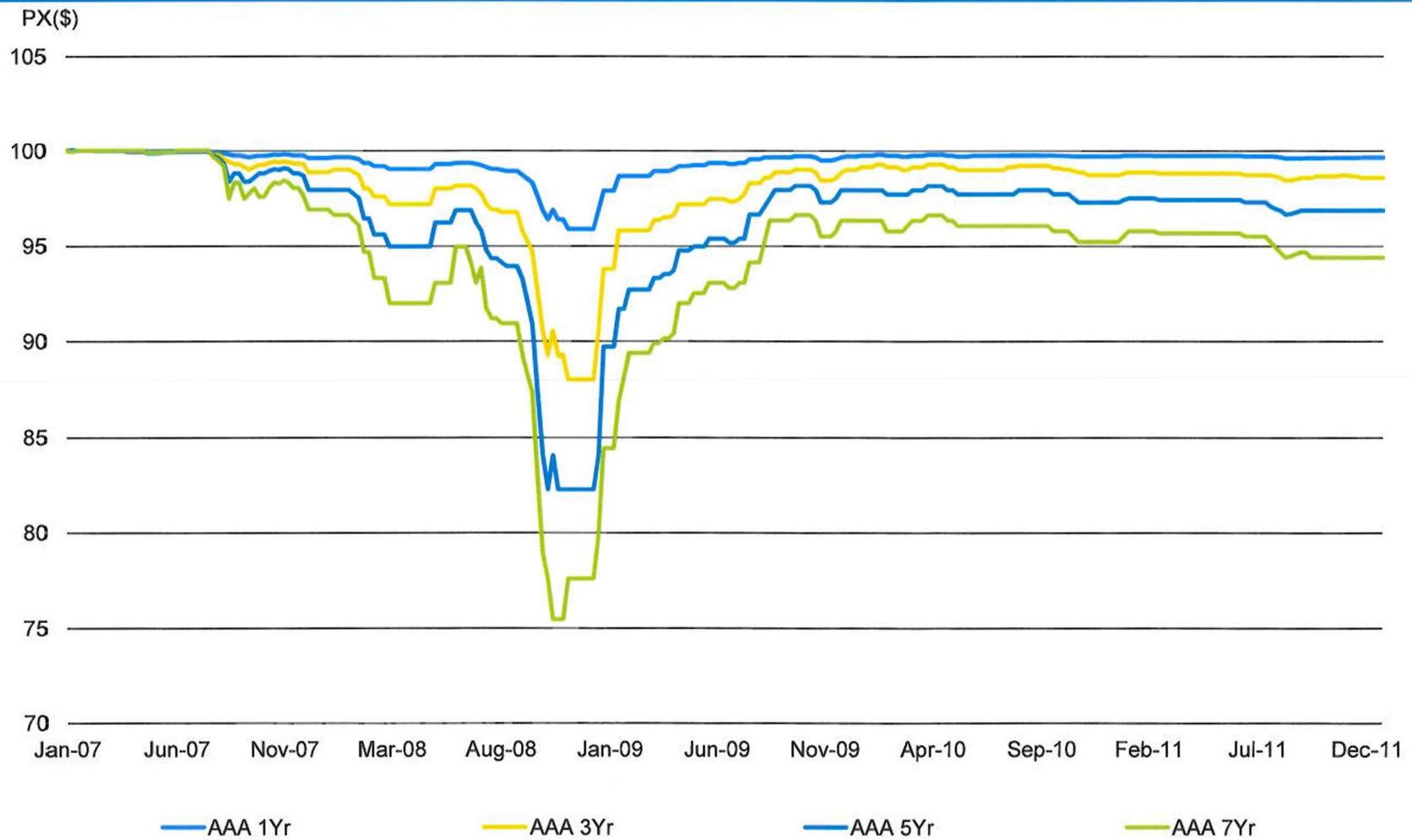


TABLE 2

Rolling 30-Day Price Volatility Analysis

Even during the heights of the crisis, the rolling 30-day price volatility did not exceed 10%. Since the crisis, the price has stabilized across the curve

SLM FFELP ABS Rolling 30-Day Price Volatility 2007-2011

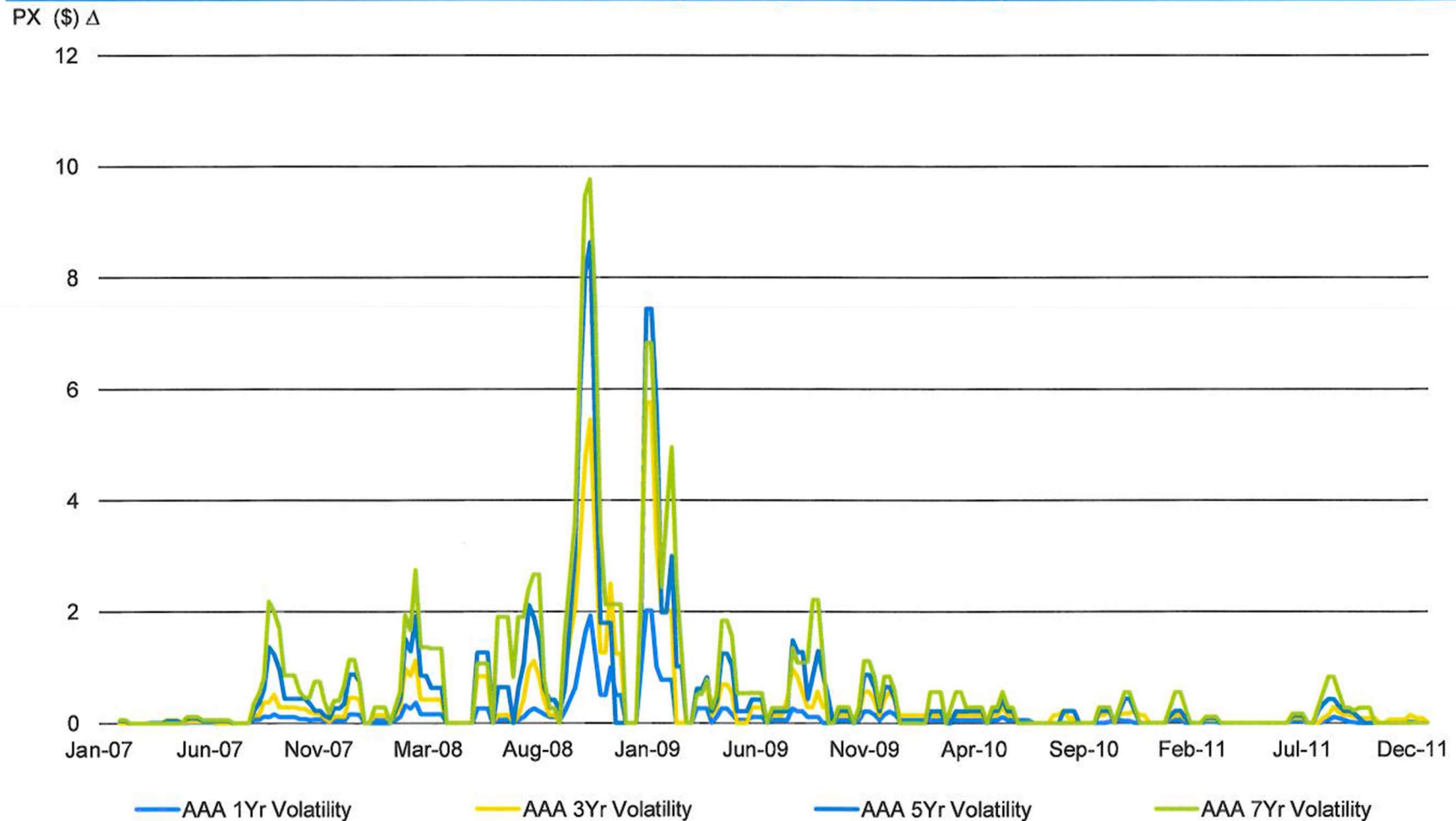
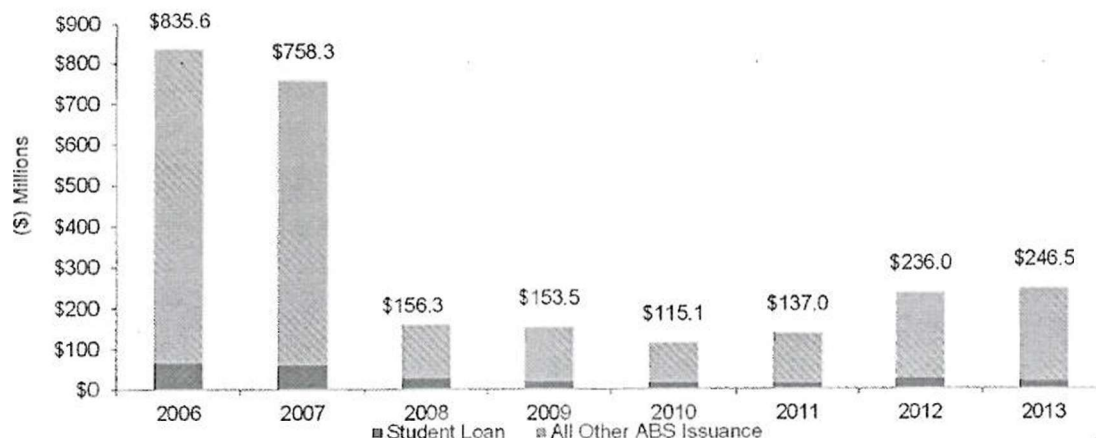


TABLE 3

Liquidity Profile of FFELP Student Loan ABS

2008 – 2013YTD Student Loan Term Issuance Levels



Percentage of student loan of total ABS issuance

2006	2007	2008	2009	2010	2011	2012	2013
7.96%	8.10%	18.28%	13.37%	15.91%	11.27%	10.92%	7.57%

Year	Total ABS Issuance	Total SL Issuance	Largest SL Issuer	Largest Non-SL Issuer	Largest SL Issuer % of Total SL Issuance	Largest SL Issuer % of Total ABS Issuance	Largest SL Issuer as % of Largest Non-SL Issuer
2006	\$835,552	\$66,500	\$5,152	\$12,684	7.75%	0.62%	40.62%
2007	\$758,349	\$61,400	\$6,315	\$3,745	10.29%	0.83%	168.62%
2008	\$156,289	\$28,563	\$19,107	\$6,607	66.90%	12.23%	289.19%
2009	\$153,528	\$20,528	\$13,267	\$12,053	64.63%	8.64%	110.07%
2010	\$115,080	\$18,310	\$5,465	\$8,343	29.85%	4.75%	65.50%
2011	\$136,953	\$15,430	\$4,577	\$8,813	29.67%	3.34%	51.93%
2012	\$235,980	\$25,778	\$13,839	\$12,741	53.69%	5.86%	108.62%
2013	\$246,484	\$18,665	\$9,885	\$10,570	52.96%	4.01%	93.52%

- FFELP student loan ABS has proved to be an extremely liquid asset class even in periods of economic stress
- FFELP student loan ABS issuers continued to be able to issue in the primary ABS market even during the depths of the financial crisis, becoming a larger part of the market due to its partial underlying government guarantee
- Due to a few large high quality FFELP issuers, the market also is able to absorb FFELP student loans from 1 or 2 names, unlike other asset classes, making individual student loan players some of the largest players in the ABS space
 - The largest FFELP issuer is often the largest issuer in the ABS market
- The table to the left further illustrates that in terms of stability and liquidity, FFELP student loan issuance is unparalleled in the ABS space before and during the financial crisis